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Teets, Herbert Mortimer

A brief analysis of the federal income tax law...

[New York]

[1913]

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1. Income tax—U. S.—Law. I. U. S. Laws, statutes, etc. II. Fifth avenue bank of New York.

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The Federal Income Tax

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Prepared for
The Fifth Avenue Bank of New York
by
HERBERT M. TEETS
of the
NEW YORK BAR

Compliments of
The Fifth Avenue Bank of New York
Fifth Avenue at Forty-fourth Street

1913

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by Herbert M. Teets

A Brief Analysis

of the

FEDERAL INCOME TAX LAW

together with text of the Act and regulations governing collection at the source

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PART I.

Analysis of the Act

PART II.

Text of the Law

PART III.

Regulations of Treasury Department

1913

Nov 13, 1913

Introductory

WITH the adoption of the Sixteenth Amendment to the Constitution of the United States and the enactment of the revenue law of 1913, the income tax becomes an important part of our Federal revenue system. While the people of some of the States have become familiar with income taxes and their special methods of collection, the taxes to which the people of New York have been accustomed are mainly property taxes, usually assessed without consulting the taxpayer, who, however, is given an opportunity to object if he desires. The income tax, is not a property tax, but is levied on the **earnings** of property and persons, and on those gains, profits and acquisitions which are included in the term "income." These are so entirely within the knowledge of the taxpayer that a tax upon them cannot properly be assessed without his help. Accordingly the new law requires the filing of a sworn annual return, to be used as a basis for assessing the tax.

Although the law thus requires the help of the taxpayer in fixing the amount to be paid, it does not rely entirely upon the information received from him, but lays a burden of responsibility upon other members of the community, by making them responsible for the collection of a portion of the tax. This is the much discussed provision for "collection at the source."

These new and important duties and responsibilities have made it necessary for a large number of persons to have a fairly comprehensive knowledge of the law, and this little book has been compiled in the hope of affording assistance to such persons.

It should be remembered that the law is a new one, that some of its provisions are confusing and likely to cause a difference of opinion, and that it is yet to be construed by the Treasury Department and the courts.

As the book is intended primarily for the individual taxpayer the corporation tax is given but little attention. The full text of the law is printed at the end of the volume together with the regulations governing "collection at the source."

PART I.— Analysis

WHO ARE TAXED.

The United States income tax law of 1913 imposes a tax on the net income of the following:

Every citizen of the United States, whether residing at home or abroad.

Every resident of the United States, though not a citizen thereof.

Non-resident aliens, on property owned and business, trade or profession carried on in the United States.

Corporations.

METHODS OF COLLECTION.

Three methods of collection are provided by the law:

(1) Payment by the taxpayer in person.

(2) Payment by representative (guardian, trustee, receiver, etc.)

(3) Payment at the source of the income.

RATES OF TAXATION.

Normal Tax. 1% on net annual income, above a specified minimum, of every individual.

Additional Tax.

In addition to the Normal tax, individuals in receipt of incomes above $20,000 per year are taxed on the excess as follows:

1%	on income over $20,000	and not over $50,000
2%	50,000	75,000
3%	75,000	100,000
4%	100,000	250,000
5%	250,000	500,000
6%	500,000	

RATES OF TAXATION—Continued

Domestic Corporations are taxed 1% on their entire net income, and foreign corporations at the same rate on their entire net income from business transacted and capital invested in the United States. Corporations have no minimum exemption and are not subject to the additional tax. Certain kinds of corporations, not organized for profit, are exempt from the tax.

Holding companies, deriving their income from dividends of other companies appear to be taxed on their entire net income.

THE TAX PERIOD.

For 1913 the tax will be computed on the income from March 1st to December 31st, both dates inclusive. For this year only five-sixths of the exemptions and deductions will be allowed.

For all subsequent years the tax will be on the income for the calendar year.

Corporations may designate the last day of any month as the end of their fiscal year but must give notice to the district collector thirty days prior to the date for filing return.

TAXABLE INCOME.

Subject to the exemptions and deductions which the law expressly allows, the net income of a taxable person shall include the following:

Gains, profits and income derived from

salaries, wages or compensation for personal service of whatever kind and in whatever form paid, or

from professions, vocations, businesses, trade, commerce, or

sales or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from

interest, rents, dividends, securities or the

transaction of any lawful business carried on for gain or profit, or from

any source whatever, including the income from but not the value of property acquired by gift, bequest, devise or descent.

With reference to the foregoing, it must be remembered that only gain, profits and income in the nature of gains and profits are included, and therefore transactions which result merely in a change in the form of capital, as for instance the conversion of real estate into money, not yielding a gain or profit, or the collection of a matured bond or note, are not to be included as income.

The language used in relation to transactions in real and personal property is not clear and will require interpretation.

For the purpose of the Additional tax the income of an individual is required to embrace the share to which he would be entitled in the gains or profits of any corporation which may be formed or fraudulently made use of to evade the tax by permitting such gains or profits to accumulate.

EXEMPT INCOME.

The proceeds of life insurance policies paid upon the death of the person insured, or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon the surrender of the contract.

Interest on the obligations of any State or political subdivision thereof; of the United States or any of its possessions.

Compensation of the present President of the United States; also of the United States judges now

in office; and of the officers and employees of the States and political subdivisions thereof, except where such compensation is paid by the United States Government.

These exemptions are in addition to the specific exemption of $3,000 or $4,000 allowed by law.

DEDUCTIONS.

In computing net income for the Normal tax of 1% the law permits certain deductions. These it will be noted principally apply to income derived from the transaction of business. Living expenses may not be deducted, as they are covered, according to the theory of the law, by the specific exemption of $3,000 or $4,000.

What may be deducted in computing income for the Additional tax, is not specified but with reference to such tax the following language is used:

> "All the provisions of this section relating to individuals who are to be chargeable with the normal income tax, so far as they are applicable and are not inconsistent with this subdivision of paragraph A, shall apply to the levy, assessment, and collection of the additional tax imposed under this section."

Deductions in computing income for Normal tax.

1 Necessary expenses actually paid in carrying on any business, not including personal, living, or family expenses.

2 All interest paid within the year by a taxable person on indebtedness.

3 All taxes paid within the year, but not assessments for local benefits.

4 Losses actually sustained during the year, incurred in trade or arising from fires, storms, or shipwreck and not compensated for by insurance or otherwise.

5 Debts due to the taxpayer actually ascertained to be worthless and charged off within the year.

6 A reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business. In the case of mines this allowance is not to exceed 5% of the gross value of the output. No allowance under this head may be claimed for restoring property for which an allowance is or has been made. No allowance is made for new buildings and permanent improvements.

7 Dividends from any corporation which is taxable on its net earnings under the corporation tax provision of this law.

8 The amount of income on which the tax has been withheld or paid at its source.

9 If income received from the interest on United States, State or municipal bonds is included in the statement of gross income, it should be deducted in making up the statement of net income. The same is true of the amounts received as salary by the officers of a State or subdivision thereof.

Net income of non-resident aliens.

The net income from property owned and business carried on in the United States by persons residing elsewhere is to be computed according to the foregoing method and the method prescribed for foreign corporations in paragraph G. of the act in so far as applicable.

SPECIFIC EXEMPTIONS.

From the amount of the net income ascertained as provided in the act, the law permits the deduction by each person of $3,000, plus $1,000 additional to a married man living with his wife, or a married woman living with her husband; but in no event

shall this additional exemption of $1,000 be deducted by both a husband and wife, and only one deduction of $4,000 shall be made from the aggregate income of both husband and wife when living together.

RETURN OR REPORT OF INCOME.

The law requires a return to be made by

"each person of lawful age, except as hereinafter provided, subject to the tax * * * * and having a net income of $3,000 or over for the taxable year."

Minors: The returns of persons under twenty-one years of age are to be made by their guardians or trustees.

"Guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations or associations acting in any fiduciary capacity, shall make and render a return of the net income of the person for whom they act, subject to this tax, coming into their custody or control or management."

Persons or corporations withholding tax at source: Where the tax is withheld at the source, the law requires a return to be made "separate and distinct" of the portion of the income of each person from which the Normal tax has been withheld, giving the name and address, if known, or, if unknown, stating that fact. Under certain circumstances, referred to under "Collection at the Source," the person whose tax is thus paid may file a return with the withholding agent, who will then make this a part of his own return.

Corporations.

All taxable corporations must make an annual return. The statute specifies what such return must include and what deductions may be made.

CORPORATIONS—Continued

Cases where no return is required.

Persons liable for the Normal tax only (1%), on their own account or in behalf of another, are not required to make return of the income derived from dividends on capital stock or from net earnings of corporations, etc., taxable on their net income.

Any person for whom a return has been made and the tax paid or to be paid by another shall not be required to make a return unless such person has other net income.

Partnerships are not taxable and do not make a return. The commissioner or collector, however, may require a statement of profits and the names of the persons who would be entitled to them if distributed. The taxable partners are required to include in their individual returns their share of the profits whether divided or not.

Form and contents of return.

The return must be in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources, including the share of the taxpayer in the profits of any partnership, whether the profits have been divided or not, and from the total thereof deducting the aggregate items or expenses and allowance authorized. The return must be verified by oath or affirmation. In due course the Commissioner of Internal Revenue will prepare forms upon which such reports may be made.

Return for Additional tax.

Every person subject to the Additional tax is required to make a personal return of his total net income from all sources, corporate or otherwise, under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury.

RETURN FOR ADDITIONAL TAX—Continued

Time and place of filing returns.

Returns must be filed on or before March 1st of each year, with the collector of the district within which the person making the return lives or has his principal place of business, or in the case of a person living abroad, in the district where his principal business in the United States is carried on. One of several joint executors, guardians, receivers, agents, etc., may file the return in the district where he resides or where the will or other instrument under which he acts is recorded, under such regulations as the Secretary of the Treasury may prescribe. Corporations file their returns in the district where their principal place of business is located.

ASSESSMENT AND PAYMENT OF TAX.

All assessments of the tax are to be made by the Commissioner of Internal Revenue and all persons notified of the amounts for which they are liable on or before June 1st in each year. The tax must be paid on or before June 30th. If a corporation elects to use a fiscal year instead of the calendar year its tax must be paid within 120 days after the date on which it is required to file its return.

WHEN COMMISSIONER WILL MAKE THE RETURN.

In case of a refusal or neglect to make the required return or in case of a false or fraudulent return, the Commissioner of Internal Revenue on discovery thereof at any time within three years after said return is due is required to make a return upon information obtained by him as provided by law and he will then fix the assessment and give notice thereof. The law requires that the tax shall immediately be paid upon notification of the assessment.

COLLECTION AT THE SOURCE.

Many of the difficulties and complexities of the new law center around this portion of the act, and it is important that those who are affected should understand the duties and responsibilities which the law places upon them.

The provision for collection of the tax at the source of the income applies only to the Normal income tax on individuals. Corporations will themselves pay the entire tax to which they are liable and the law does not require that any part of it shall be withheld at the source of the income.

Tenants paying rent, mortgagors paying interest, employers paying salaries, etc., where the amount is fixed or determinable and exceeds $3,000 per year, are required to withhold 1% of the amount and pay the same to the Government. The law makes them personally liable for the amount of the tax. This applies to all payments made on or after November 1st, 1913.

A special rule applies to interest on corporate obligations. The income tax on such interest is to be withheld at the source, whether the amount is $3,000 or less. In other words, a person presenting for payment a railroad coupon for $20 may have the tax of 1% deducted from the amount. Methods are provided by which this deduction may be prevented or the amount reclaimed by persons not subject to the tax.

The following is a more detailed statement of these features of the law:

When and by whom tax withheld.

On and after November 1st, 1913

All persons, firms, companies, etc., in whatever capacity acting, including lessees and mortgagors of real and personal property,

trustees acting in any trust capacity,

executors, administrators, agents, receivers, conservators, employers and all officers and employees of the United States

having the control, receipt, custody, disposal or payment of

Interest Rent Salaries Wages Premiums Annuities Compensation Remuneration Emoluments or other	fixed or determinable annual gains, profits and income of another person, exceeding $3,000 for any taxable year

but not including dividends on corporations which are taxed on their earnings

are authorized and required to deduct and withhold an amount sufficient to pay the Normal tax thereon (1%) and shall pay the same to the officer of the United States authorized to receive it.

Each such person, etc., is made personally liable for the tax.

Each such person, etc., is also required to make a return to the collector of internal revenue of the district, but separate and distinct, of the portion of the income of each person from which the Normal tax has been thus withheld, and containing the name and address of such person, or stating that the name and address or the address are unknown.

No part of the income need be retained for this purpose before November 1st, 1913.

Exemption at source.

It is to be noted that the amount to be retained and paid over is not the tax on the excess over $3,000, but on the whole amount of income. In order to obtain the exemption ($3,000-$4,000) the person from whose income the tax is thus retained should file with the person who is required to withhold and pay the tax for him, a signed notice in writing claiming the benefit of such exemption, and thereupon no tax shall be withheld upon the amount of such exemption. The notice must be filed not less than 30 days prior to the date when the return of his income is due. If this is not done a claim for refund may be filed with the collector, but this would probably entail a long delay and is not to be recommended.

Deductions for expenses, etc., at source.

Where the tax is withheld at the source, in order to obtain the deductions for business expenses, taxes, etc., which the law allows, the person for whom the tax is withheld must, not later than 30 days prior to the day on which the return of his income is due, file with the person who is required to withhold the tax a true and correct return of his annual gains, profits and income from all other sources, and also the deductions asked for, which return will then become part of the return which the person withholding the tax is required to make in his behalf;

or make application to the collector of the district for the deductions claimed.

If the person is a minor, or insane, or absent from the United States, or is seriously ill, the return and application may be made by the person withholding the tax, who must make oath that he has sufficient knowledge to make the required return.

Special rule as to coupons and other corporate interest.

In the cases noted above, no tax is to be withheld at the source unless the amount of income exceeds $3,000. In the case of fixed and determinable annual gains, profits and income derived from interest on bonds, mortgages, deeds of trust and similar obligations of **corporations, joint stock companies** or **associations** and **insurance companies,** the Normal tax (1%) is to be deducted at the source in all cases regardless of the amount unless exemption is claimed.

Foreign interest, dividends, etc.

The Normal tax of 1% must be withheld from income represented by "coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries." The tax is to be withheld although the amount does not exceed $3,000, by any banker or person who shall sell, collect, or "realize" such items. Claim for exemption and deduction may be made as in other cases of income withheld at the source.

Persons, firms, or corporations undertaking as a matter of business to collect such foreign interest, etc., are required to obtain a license and be subject to Government regulations.

Government, State and Municipal bonds.

The income from bonds of the United States or its possessions, the States and the political subdivisions of the States is entirely exempt from tax and from the provisions relating to collection at the source.

COLLECTION AT THE SOURCE—Continued

"Tax free bonds."

When issues of corporate bonds contain a clause to the effect that the interest will be paid without deduction for any tax which the makers of the bonds may be required to withhold under any law of the United States, the income from such bonds is not tax exempt, but the makers of the bonds pay the tax at the source on behalf of the bondholders and the latter receive the interest without deduction.

WHERE RETURN UNDERSTATES INCOME.

If the collector or deputy collector has reason to believe that the amount of income shown by a return is understated, he will notify the person making the return to show cause why it should not be increased, and upon proof of the amount understated may increase the same accordingly. In such a case the taxpayer has the right of appeal to the Commissioner of Internal Revenue.

REFUND OF TAXES WRONGFULLY EXACTED.

If the collector insists upon the payment of taxes which are excessive in amount or otherwise wrongfully exacted, the Commissioner of Internal Revenue has the right upon an appeal to him to refund such an amount as may have been improperly collected. Payment under protest will preserve the right of the taxpayer to bring suit to recover the amount.

PENALTIES.

For knowingly making a false statement or representation in claim to exemption at "the source," $300.

For non-payment of the tax when due and for ten days after notice and demand, 5% on the tax imposed and 1% monthly, except from estates of insane, deceased or insolvent persons.

PENALTIES—Continued

For refusal or neglect to make a return at "the source," not less than $20 nor more than $1,000.

For neglect or refusal to file a return:
If for the personal income tax a fine of not less than $20 nor more than $1,000, and the commissioner is required to add 50% to the tax, unless the neglect is due to sickness or absence. In the latter case, however, the return must be made within the additional time granted by the collector, which may not be more than thirty days. If for the corporation tax, a fine of not to exceed $10,000 and a 50% increase in the tax.

A false or fraudulent return by a person or an officer of a corporation with intent to defraud the revenues or to defeat or evade the tax is a misdemeanor punishable by fine not exceeding $2,000 or imprisonment for not more than one year, or both, and the cost of the prosecution. If by a corporation, a fine of $10,000 may be imposed. Both as to corporations and individuals the tax is doubled.

Undertaking as a matter of business the collection of foreign interest, dividends, etc., without taking out the license and complying with the regulations required by law, is a misdemeanor, punishable by fine not exceeding $5,000 or imprisonment for not exceeding one year, or both.

Any officer improperly revealing information gained by him in his official capacity or permitting any return to be seen or examined is guilty of a misdemeanor, punishable by fine not exceeding $1,000 or imprisonment for one year, or both, and shall be dismissed from office and be incapable thereafter of holding office under the Government.

PART II.—Income Tax

Section II of Tariff Law of 1913.

A. Subdivision 1. That there shall be levied, assessed, collected and paid annually upon the entire net income arising or accruing from all sources in the preceding calendar year to every citizen of the United States, whether residing at home or abroad, and to every person residing in the United States, though not a citizen thereof, a tax of 1 per centum per annum upon such income, except as hereinafter provided; and a like tax shall be assessed, levied, collected, and paid annually upon the entire net income from all property owned and of every business, trade, or profession carried on in the United States by persons residing elsewhere.

Normal Tax

Additional Tax

Subdivision 2. In addition to the income tax provided under this section (herein referred to as the normal income tax) there shall be levied, assessed, and collected upon the net income of every individual an additional income tax (herein referred to as the additional tax) of 1 per centum per annum upon the amount by which the total net income exceeds $20,000 and does not exceed $50,000, and 2 per centum per annum upon the amount by which the total net income exceeds $50,000 and does not exceed $75,000, 3 per centum per annum upon the amount by which the total net income exceeds $75,000 and does not exceed $100,000, 4 per centum per annum upon the amount by which the total net income exceeds $100,000 and does not exceed $250,000, 5 per centum per annum upon the amount by which the total net income exceeds $250,000 and does not exceed $500,000, and 6 per centum per annum upon the amount by which the total net income exceeds $500,000. All the provisions of this section relating to individuals who are to be chargeable with the normal income tax, so far as they are applicable and are not inconsistent with this subdivision of paragraph A, shall apply to the levy, assessment, and collection of the additional tax imposed under this section. Every person subject to this additional tax shall, for the purpose of its assessment and collection, make a personal return of his total net income from all sources, corporate or otherwise, for the preceding calendar year, under rules and regulations to

Return for Additional Tax

be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. For the purpose of this additional tax the taxable income of any individual shall embrace the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies, or associations however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint-stock company, or association, is a mere holding company, or that the gains and profits are permitted to accumulate beyond the reasonable needs of the business shall be prima facie evidence of a fraululent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and became surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint-stock company, or association shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same if distributed.

Taxable Income

B. That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any lawful business carried on for gain or profit, or gains or profits and income derived from any source whatever, including the income from any source whatever, including the income from but not the value of property acquired by gift, bequest, devise, or descent; *Provided*, That the proceeds of life insurance policies paid upon the death of the person

insured or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon surrender of contract, shall not be included as income.

Deductions

That in computing net income for the purpose of the normal tax there shall be allowed as deductions: First, the necessary expenses actually paid in carrying on any business, not including personal, living, or family expenses; second, all interest paid within the year by a taxable person on indebtedness; third, all national, State, county, school, and municipal taxes paid within the year, not including those assessed against local benefits; fourth, losses actually sustained during the year, incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise; fifth, debts due to the taxpayer actually ascertained to be worthless and charged off within the year; sixth, a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per centum of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided*, That, no deduction shall be allowed for any amount paid out for new buildings, permanent improvements or betterments made to increase the value of any property or estate; seventh, the amount received as dividends upon the stock or from the net earnings of any corporation, joint stock company, association, or insurance company which is taxable upon its net income as hereinafter provided; eighth, the amount of income, the tax upon which has been paid or withheld for payment at the source of the income, under the provisions of this section, provided that whenever the tax upon the income of a person is required to be withheld and paid at the source as hereinafter required, if such annual income does not exceed the sum of $3,000 or is not fixed or certain, or is indefinite, or irregular as to amount or time of accrual, the same shall not be deducted in the personal return of such person.

Non-Resident Aliens

The net income from property owned and business

carried on in the United States by persons residing elsewhere shall be computed upon the basis prescribed in this paragraph and that part of paragraph G of this section relating to the computation of the net income of corporations, joint-stock and insurance companies, organized, created, or existing under the laws of foreign countries, in so far as applicable.

Exempt Income

That in computing net income under this section there shall be excluded the interest upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been elected, and of the judges of the supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State or any political subdivision thereof except when such compensation is paid by the United States Government.

Specific Exemptions

C. That there shall be deducted from the amount of the net income of each of said persons, ascertained as provided herein, the sum of $3,000, plus $1,000 additional if the person making the return be a married man with a wife living with him, or plus the sum or $1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of $1,000 be deducted by both a husband and a wife: *Provided*, That only one deduction of $4,000 shall be made from the aggregate income of both husband and wife when living together.

Tax Period

D. The said tax shall be computed upon the remainder of said net income of each person subject thereto, accruing during each preceding calendar year ending December thirty-first: *Provided, however*, That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be computed on the net income accruing from March first to December thirty-first, nineteen hundred and thirteen, both dates inclusive, after deducting five-sixths only of the specified exemptions and deductions herein provided for. On or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, a true and accurate return, under oath or affirmation, shall be made by each person of lawful age, except as hereinafter provided, subject to the tax imposed by this section, and

Return of Income

having a net income of $3,000 or over for the taxable year, to the collector of internal revenue for the district in which such person resides or has his principal place of business, or, in the case of a person residing in a foreign country, in the place where his principal business is carried on within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources and from the total thereof, deducting the aggregate items or expenses and allowance herein authorized; guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations or associations acting in any fiduciary capacity, shall make and render a return of the net income of the person for whom they act, subject to this tax, coming into their custody or control and management, and be subject to all the provisions of this section which apply to individuals: *Provided,* That a return made by one of two or more joint guardians, trustees, executors, administrators, agents, receivers, and conservators, or other persons acting in a fiduciary capacity, filed in the district where such person resides, or in the district where the will or other instrument under which the acts is recorded, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph; and also

Return by "Source"

all persons, firms, companies, co-partnerships, corporations, joint-stock companies or associations, and insurance companies, except as hereinafter provided, in whatever capacity acting, having the control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income of another person subject to tax, shall in behalf of such person deduct and withhold from the payment an amount equivalent to the normal income tax upon the same and make and render a return, as aforesaid, but separate and distinct, of the portion of the income of each person from which the normal tax has been thus withheld, and containing also the name and address of such person or stating that the name and address or the address, as the case may be, are unknown: *Provided,* That the provision requiring the normal tax of individuals to be withheld at the source of the income shall not be construed to require

any of such tax to be withheld prior to the first day of November, nineteen hundred and thirteen: *Provided, further,* that in either case above mentioned no return of income not exceeding $3,000 shall be required: *Provided further,* That any person carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of a partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid, under the provisions of this section, and any such firm, when requested by the Commissioner of Internal Revenue, or any district collector, shall forward to him a correct statement of such profits and the names of the individuals who would be entitled to the same, if distributed: *Provided further,* That persons liable for the normal income tax only, on their own account or in behalf of another, shall not be required to make return of the income derived from dividends on the capital stock or from the net earnings of corporations, joint-stock companies or associations, and insurance companies taxable upon their net income as hereinafter provided. Any person for whom return has been made and the tax paid, or to be paid as aforesaid, shall not be required to make a return unless such person has other net income, but only one deduction of $3,000 shall be made in the case of any such person. The collector or deputy collector shall require every list to be verified by the oath or affirmation of the party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. If dissatisfied with the decision of the collector, such person may submit the case, with all the papers, to the Commissioner of Internal Revenue for his decision, and may furnish sworn testimony of witnesses to prove any relevant facts.

Partnership

When Return Not Required

When Return Understates Income

E. That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessments shall be paid on or be-

Assessment of Tax

fore the thirtieth day of June, except in cases of refusal or neglect to make such return and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of tax unpaid, and interest at the rate of 1 per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

Refusal or Neglect to Make Return

Withholding at Source

All persons, firms, co-partnerships, companies, corporations, joint-stock companies or associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual gains, profits, and income of another person, exceeding $3,000 for any taxable year, other than dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations subject to like tax, who are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district, are hereby authorized and required to deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this section, and shall pay to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax. In all cases where the income tax of a person is withheld and deducted and paid or to be paid at the source, as aforesaid, such person shall not receive

Exemption at Source

the benefit of the deduction and exemption allowed in paragraph C of this section except by an application for refund of the tax unless he shall, not less than thirty days prior to the day on which the return of his income is due, file with the person who is required to withhold and pay tax for him, a signed notice in writing claiming the benefit of such exemption and thereupon no tax shall be withheld upon the amount of such exemption: *Provided,* That if any person for the purpose of obtaining any allowance or reduction by virtue of a claim for such exemption, either for himself or for any other person, knowingly makes any false statement or false or fraudulent representation, he shall be liable to a penalty of $300; nor shall any person under the foregoing conditions be allowed the benefit of any deduction provided for in subsection B of this section unless he shall, not less than thirty days prior to the day on which the return of his income is due, either file with the person who is required to withhold and pay tax for him a true and correct return of his annual gains, profits and income from all other sources, and also the deductions asked for, and the showing thus made shall then become a part of the return to be made in his behalf by the person required to withhold and pay the tax, or likewise make application for deductions to the collector of the district in which return is made or to be made for him: *Provided further,* That if such person is a minor or an insane person, or is absent from the United States, or is unable owing to serious illness to make the return and application above provided for, the return and application may be made for him or her by the person required to withhold and pay the tax, he making oath under the penalties of this Act that he has sufficient knowledge of the affairs and the property of his beneficiary to enable him to make a full and complete return for him or her, and that the return and application made by him are full and complete: *Provided further,* That the amount of the normal tax hereinbefore imposed shall be deducted and withheld from fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods, although such interest does not

Penalty for False Statement

Deductions at Source

Special Rule as to Corporate Interest

amount to $3,000, subject to the provisions of this section requiring the tax to be withheld at the source and deducted from annual income and paid to the Government; and likewise the amount of such tax shall be deducted and withheld from coupons, checks, or bills of exchange for or in payment of interest upon bonds of foreign countries and upon foreign mortgages or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries; and the tax in each case shall be withheld and deducted for and in behalf of any person subject to the tax hereinbefore imposed, although such interest, dividends, or other compensation does not exceed $3,000, by any banker or person who shall sell or otherwise realize coupons, checks, or bills of exchange drawn or made in payment of any such interest or dividends (not payable in the United States), and any person who shall obtain payment (not in the United States), in behalf of another of such dividends and interest by means of coupons, checks, or bills of exchange, and also any dealer in such coupons who shall purchase the same for any such dividends or interest (not payable in the United States), otherwise than from a banker or another dealer in such coupons; but in each case the benefit of the exemption and the deduction allowable under this section may be had by complying with the foregoing provisions of this paragraph.

Foreign Dividends and Interest

License to Collect Foreign Dividends and Interest

All persons, firms, or corporations undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to ascertain and verify the due withholding and payment of the income tax required to be withheld and paid as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and any person who shall knowingly undertake to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for

each offense be fined in a sum not exceeding $5,000, or imprisonment for a term not exceeding one year, or both, in the discretion of the court.

Nothing in this section shall be construed to release a taxable person from liability for income tax, nor shall any contract entered into after this Act takes effect be valid in regard to any Federal income tax imposed upon a person liable to such payment.

The tax herein imposed upon annual gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury.

The provisions of this section relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon individuals.

Penalty

F. That if any person, corporation, joint-stock company, association, or insurance company liable to make the return or pay the tax aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, such person shall be liable to a penalty of not less than $20 nor more than $1,000. Any person or any officer of any corporation required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding $2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

Corporation Tax

G. (a) That the normal tax hereinbefore imposed upon individuals likewise shall be levied, assessed, and paid annually upon the entire net income arising or accruing from all sources during the preceding calendar year to every corporation, joint-stock company or association, and every insurance company, organized in the United States, no matter how created or organized, not including partnerships; but if organized, authorized, or existing under the laws of any foreign country, then upon the amount of net income accruing from business transacted and capital invested within the United States

Exempt Corporations

during such year: *Provided, however,* That nothing in this section shall apply to labor, agricultural, or horicultural organizations, or to mutual savings banks not having a capital stock represented by shares, or to fraternal beneficiary societies, orders, or associations operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, and other benefits to the members of such societies, orders, or associations and dependents of such members, nor to domestic building and loan associations, nor to cemetery companies, organized and operated exclusively for the mutual benefit of their members, nor to any corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual, nor to business leagues, nor to chambers of commerce or boards of trade, not organized for profit or no part of the net income of which inures to the benefit of the private stockholder or individual; nor to any civic league or organization not organized for profit, but operated exclusively for the promotion of social welfare: *Provided further,* That there shall not be taxed under this section any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of Columbia, or any political subdivision of a State, Territory, or the District of Columbia, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided,* That whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, has, prior to the passage of this Act, entered in good faith into a contract with any person or corporation, the object and purpose of which is to acquire, construct, operate or maintain a public utility, no tax shall be levied under the provisions of this Act upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial

gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this section upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

Deductions

(b) Such net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint-stock company or association, or insurance company, received within the year from all sources, (first) all the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any; and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided,* That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposit returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further,* That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policy-

holder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such idebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year: *Provided,* That in case of indebtedness wholly secured by collateral the subject of sale in ordinary business of such corporation, joint stock company, or association, the total interest secured and paid by such company, corporation, or association within the year on any such indebtedness may be deducted as a part of its expense of doing business; *Provided further,* That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; and in the case of a bank, banking association, loan, or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof, or imposed by the Government of any foreign country: *Provided,* That in the case of a corporation, joint-stock company or association, or insurance company, organized, authorized or existing under the laws of any foreign country, such net income shall be ascertained by deducting from the gross amount of its income accrued within the year from business transacted and capital invested within the United States, (first) all the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year in business conducted by it within

Foreign Corporations

the United States and not compensated by insurance or otherwise, including a reasonable allowance for depreciation by use, wear and tear of property, if any, and in the case of mines a reasonable allowance for depletion of ores and all other natural deposits, not to exceed 5 per centum of the gross value at the mine of the output for the year for which the computation is made; and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further,* That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further,* That mutual marine insurance companies shall include in their return of gross income premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (third) the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding the proportion of one-half of the sum of its interest bearing indebtedness and its paid-up capital stock outstanding at the close of the year, or if no capital stock, the capital employed in the business at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: *Provided,* That in the case of bonds

or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed shall be allowed; (fourth) all sums paid by it within the year for taxes imposed under the authority of the United States or of any State or Territory thereof or the District of Columbia. In the case of assessment insurance companies, whether domestic or foreign, the actual deposit of sums with State or Territorial officers, pursuant to law, as additions to guarantee or reserve funds shall be treated as being payments required by law to reserve funds.

Tax Period

(c) The tax herein imposed shall be computed upon its entire net income accrued within each preceding calendar year ending December thirty-first: *Provided, however,* That for the year ending December thirty-first, nineteen hundred and thirteen, said tax shall be imposed upon its entire net income accrued within that portion of said year from March first to December thirty-first, both dates inclusive, to be ascertained by taking five-sixths of its entire net income for said calendar year: *Provided further,* That any corporation, joint-stock company or association, or insurance company subject to this tax may designate the last day of any month in the year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending in the day designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the date upon which its annual return shall be filed. All corporations, joint-stock companies or associations, and insurance companies subject to the tax herein imposed, computing taxes upon the income of the calendar year, shall on or before the first day of March, nineteen hundred and fourteen, and the first day of March in each year thereafter, and all corporations, joint-stock companies or associations, and insurance companies, computing taxes upon the income of a fiscal year which it may designate in the manner hereinbefore provided, shall

Fiscal Year

Return

render a like return within sixty days after the close of its said fiscal year, and within sixty days after the close of its fiscal year in each year thereafter, or in the case of a corporation, joint-stock company or association, or insurance company, organized or existing under the laws of a foreign country, in the place where its principal business is located within the United States, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, shall render a true and accurate return under oath or affirmation of its president, vice-president, or other principal officer, and its treasurer or assistant treasurer, to the collector of internal revenue for the district in which it has its principal place of business, setting forth (first) the total amount of its paid-up capital stock outstanding, or if no capital stock, its capital employed in business, at the close of the year; (second) the total amount of its bonded and other indebtedness at the close of the year; (third) the gross amount of its income, received during such year from all sources, and if organized under the laws of a foreign country the gross amount of its income received within the year from business transacted and capital invested within the United States; (fourth) the total amount of all its ordinary and necessary expenses paid out of the earnings in the maintenance and operation of the business and properties of such corporation, joint-stock company or association, or insurance company within the year, stating separately all rentals or other payments required to be made as a condition to the continued use or possession of property, and if organized under the laws of a foreign country the amount so paid in the maintenance and operation of its business within the Unted States; (fifth) the total amount of all losses actually sustained during the year and not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further,* That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any por-

Contents of Return

tion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further,* That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder, as shall have been paid back or credited to such individual policyholder or treated as an abatement of premium of such individual policyholder, within such year; and in case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, all losses actually sustained by it during the year in business conducted by it within the United States not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in case of insurance companies the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided further,* That mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further,* That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums

previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year; (sixth) the amount of interest accrued and paid within the year on its bonded or other indebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid-up capital stock, outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of indebtedness not exceeding the amount of capital employed in the business at the close of the year, and in the case of a bank, banking association, or trust company, stating separately all interest paid by it within the year on deposits; or in case of a corporation, joint-stock company or association, or insurance company, organized under the laws of a foreign country, interest so paid on its bonded or other indebtedness to an amount of such bonded or other indebtedness not exceeding the proportion of its paid-up capital stock outstanding at the close of the year, or if no capital stock, the amount of capital employed in the business at the close of the year, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States; (seventh) the amount paid by it within the year for taxes imposed under the authority of the United States and separately the amount so paid by it for taxes imposed by the Government of any foreign country; (eighth) the net income on such corporation, joint-stock company or association, or insurance company, after making the deductions in this subsection authorized. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue.

Assessment and Payment of Tax

All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall

be paid on or before the thirtieth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and twenty days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of false or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within the three years after said return is due, make a return upon information obtained as provided for in this section or by existing law, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, or after one hundred and twenty days from the date on which the return of income is required to be made by the taxpayer, and after ten days notice and demand thereof by the collector, there shall be added the sum of 5 per centum on the amount of tax unpaid and interest at the rate of 1 per centum per month upon said tax from the time the same becomes due.

Returns of Corporations Public Records

(d) When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract thereof, showing the name and income of each such corporation, joint-stock company, association or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe.

Penalty

If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid, shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall be liable to a penalty of not exceeding $10,000.

"State" "United States"

H. That the word "State" or "United States" when used in this section shall be construed to include any Territory, Alaska, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

I. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three, and thirty-one hundred and seventy-six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

Penalty for Improperly Divulging Information

"SEC. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return by any person or corporation, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or the amount or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding $1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office and be incapable thereafter of holding any office under the Government.

"SEC. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons

therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

Persons to Make Return

"SEC. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, in case of a special tax, on or before the thirty-first day of July in each year, in case of income tax on or before the first day of March in each year, and in other cases before the day on which the taxes accrue, to make a list or return, verified by oath or affirmation, to the collector or a deputy collector of the district where located, of the articlees or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Provided,* That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, articles or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath or affirmation by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further,* That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable

age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by oath or affirmation. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is false or fraudulent, or contains any undervaluation or understatement, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books, at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects liable to tax or the return thereof. The collector may summon any person residing or found within the state in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority which he might lawfully exercise in the district for which he was commissioned.

Neglect and Refusal to Make Return

"SEC. 3176. When any person, corporation, company, or association refuses or neglects to render any return or list required by law, or renders a false or fraudulent return or list, the collector or any deputy collector shall make, according to the best information which he can obtain, including that derived from the evidence elicited by the examination of the collector, and on his own view and information, such list or return, according to the form prescribed, of the income, property, and objects liable to tax owned or possessed or under the care of management of such person or corporation, company or association, and the Commissioner of Internal Revenue shall assess all taxes not paid by stamps, including the

amount, if any, due for special tax, income or other tax, and in case of any return of a false or fraudulent list or valuation intentionally he shall add 100 per centum to such tax; and in case of a refusal or neglect, except in cases of sickness or absence, to make a list or return, or to verify the same as aforesaid, he shall add 50 per centum to such tax. In case of neglect occasioned by sickness or absence as aforesaid the collector may allow such further time for making and delivering such list or return as he may deem necessary, not exceeding thirty days. The amount so added to the tax shall be collected at the same time and in the same manner as the tax unless the neglect or falsity is discovered after the tax has been paid, in which case the amount so added shall be collected in the same manner as the tax; and the list or return so made and subscribed by such collector or deputy collector shall be held prima facie good and sufficient for all legal purposes."

Collector Will Give Receipt for Tax

J. That it shall be the duty of every collector of internal revenue to whom any payment of any taxes other than the tax represented by an adhesive stamp or other engraved stamp is made under the provisions of this section, to give the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

Jurisdiction of Courts

K. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this section to appear

to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

L. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this section, are hereby extended and made applicable to all the provisions of this section and to the tax herein imposed.

Porto Rico & Philippine Islands

M. That the provisions of this section shall extend to Porto Rico and the Philippine Islands: *Provided*, That the administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate internal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general governments, thereof, respectively: *And provided further*, That the jurisdiction in this section conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this section shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District of Columbia, Porto Rico and the Philippine Islands or the political subdivisions thereof.

N. That for the purpose of carrying into effect the provisions of Section II of this Act, and to pay the expenses of assessing and collecting the income tax therein imposed, and to pay such sums as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may deem necessary, for information, detection, and bringing to trial and punishment persons guilty of violating the provisions of this section, or conniving at the same, in cases where such expenses are not otherwise provided for by law, there is hereby appropriated out of any money in the Treasury not otherwise appropriated for the fiscal year ending June thirtieth, nineteen hundred and fourteen, the sum of $800,000, and the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, is authorized to appoint and pay from this appropriation all necessary officers, agents, inspectors, deputy collectors, clerks, messengers

and janitors, and to rent such quarters, purchase such supplies, equipment, mechanical devices, and other articles as may be necessary for employment or use in the District of Columbia or any collection district in the United States, or any Territories thereof: *Provided*, That no agent paid from this appropriation shall receive compensation at a rate higher than that now received by traveling agents on accounts in the Internal Revenue Service, and no inspector shall receive a compensation higher than $5 a day and $3 additional in lieu of subsistence, and no deputy collector, clerk, messenger, or other employee shall be paid at a rate of compensation higher than the rate now being paid for the same or similar work in the Internal Revenue Service.

In the office of the Commissioner of Internal Revenue at Washington, District of Columbia there shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury one additional deputy commissioner, at a salary of $4,000 per annum; two heads of divisions, whose compensation shall not exceed $2,500 per annum; and such other clerks, messengers, and employees, and to rent such quarters and to purchase such supplies as may be necessary: *Provided*, That for a period of two years from and after the passage of this Act the force of agents, deputy collectors, inspectors, and other employees not including the clerical force below the grade of chief of division employed in the Bureau of Internal Revenue in the city of Washington, District of Columbia authorized by this section of this Act shall be appointed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, under such rules and regulations as may be fixed by the Secretary of the Treasury to insure faithful and competent service, and with such compensation as the Commissioner of Internal Revenue may fix, with the approval of the Secretary of the Treasury, within the limitations herein prescribed: *Provided further*, That the force authorized to carry out the provisions of Section II of this Act, when not employed as herein provided, shall be employed on general internal-revenue work.

TREASURY DEPARTMENT.

OFFICE OF COMMISSIONER OF INTERNAL REVENUE

WASHINGTON.

REGULATIONS

REGARDING THE DEDUCTION OF THE INCOME TAX AT THE SOURCE OF INTEREST MATURING ON BONDS, NOTES, AND OTHER SIMILAR OBLIGATIONS OF CORPORATIONS, JOINT-STOCK COMPANIES, OR ASSOCIATIONS AND INSURANCE COMPANIES, UNDER THE PROVISIONS OF SECTION II OF THE ACT OF OCTOBER 3, 1913.

TAX TO BE DEDUCTED AT SOURCE.

Under the income-tax law enacted October 3, 1913, a tax of 1 per cent., designated in the law as the *normal* tax, shall be deducted at "the source," beginning November 1, 1913, from all income accruing and payable to—

(*a*) Every citizen of the United States, whether residing at home or abroad; and to

(*b*) Every person residing in the United States, though not a citizen thereof,

which may be derived from interest upon bonds and mortgages, or deeds of trust, or other similar obligations, including equipment trust agreements and receivers' certificates of corporations, joint-stock companies or associations, and insurance companies, although such interest does not amount to $3,000, excepting only the interest upon the obligations of the United States or its possessions, or a State or any political subdivision thereof.

The term "debtor," as hereinafter used, shall be construed to cover all corporations, joint-stock companies or associations, and insurance companies.

WHEN TAX SHALL BE WITHHELD BY DEBTOR.

For the purpose of collecting this tax on all coupons and registered interest originating or payable in the United States the source shall be the debtor (or its paying agent in the United States), which shall deduct the tax when same is to be withheld, and no other bank, trust company, banking firm, or individual taking coupons or interest orders for collection, or otherwise, shall withhold the tax thereon; *Provided*, That all such coupons or orders for registered interest are accompanied by certificates of ownership signed by the owners of the bonds upon which the

interest matured. These certificates shall be in the forms hereinafter prescribed, and a separate certificate shall be made out by each owner of bonds for the coupons or interest orders for each separate issue of bonds or obligations, of each debtor.

WHEN TAX SHALL BE WITHHELD BY FIRST COLLECTING AGENCY.

If, however, the coupons or interest orders are not accompanied by certificates as prescribed above, the first bank, trust company, banking firm, or individual, or collecting agency receiving the coupons or interest orders for collection, or otherwise, shall deduct and withhold the tax and shall attach to such coupons or interest orders its own certificate, giving the name and address of the owner of, or the person presenting such coupons or interest orders if the owner is not known, with a description of the coupons or interest orders; also setting forth the fact that they are withholding the tax upon them; whereupon the debtor shall not again withhold the tax on said coupons or interest orders, but in lieu thereof shall deliver to the Government the certificate of such bank, trust company, etc., which is withholding such tax money.

Any corporation, collecting agency, or person first receiving from the owner any interest coupons or orders for the collection of registered interest, and to whom the certificates above provided for are delivered, should require the persons tendering such coupons or orders for registered interest to satisfactorily establish their identity.

PAYMENT OF REGISTERED INTEREST BY DEBTORS.

A debtor whose bonds may be registered, both as to principal and interest, shall deduct the normal tax of 1 per cent. from the accruing interest on all bonds before sending out checks for said interest to registered owners or before paying such interest upon interest orders signed by the registered holders of said bonds until there shall be filed with said debtor or its fiscal agent (and not later than thirty (30) days prior to March 1), through whom said interest is customarily paid, the proper certificates claiming exemption from liability for said tax as herein provided, executed as follows:

By a citizen or resident of the United States, the bona fide owner of the registered obligations, who may claim exemption under paragraph C, section 2, of the Federal income-tax law, or

By corporations, joint-stock companies, associations, or insurance companies organized in the United States, or organizations,

associations, fraternities, etc., which are either taxable or exempt from taxation, as provided in paragrapn G, subdivision A, of the act, or

By a bona fide resident and citizen of a foreign country, claiming exemption as such.

DESIGNATION OF FISCAL AGENTS.

The "debtor" may appoint paying or fiscal agents to act for it in matters pertaining to the collection of this tax upon filing with the collector of internal revenue for its district a proper notice of the appointment of such agent or agents.

CERTIFICATES CLAIMING EXEMPTION.

If the owners of the bonds are individuals who are citizens or residents of the United States, the aforesaid certificates shall accompany the coupons, or, with respect to the interest on registered bonds, shall be filed with payer of said interest and such certificates shall describe the bonds and show the amount of coupons attached or the amount of interest due such owners on registered bonds and the full name and address of the owners, and shall also state whether they claim or do not then claim exemption from taxation at the source provided for by paragraph C of Section II of the Federal income-tax law ($3,000, and under certain conditions $4,000) as to the income represented by such coupons or interest.

The certificates shall also show the amount, if any, of exemption claimed and the date of signature.

The form of certificate to be used for this purpose shall be substantially as follows:

FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS STATING WHETHER OR NOT EXEMPTION IS CLAIMED UNDER PARAGRAPH C, SECTION 2, OF THE FEDERAL INCOME TAX LAW.

I do solemnly declare that I, ...a citizen or resident of the United States, and residing at ....., am the owner of $..... bonds of the denominations of $..... each, Nos. .....

.....

.....

of the .....
(Give name of debtor.)

known as .....bonds,
(Describe the particular issue of bonds.)

from which were detached the accompanying coupons, due.....,

191.., amounting to $....., or upon which there matured.....,

191,.., $..... of registered interest.

I {do / do not} now claim, with respect to the income represented by said interest, the benefit of a deduction of $..... allowed under paragraph C, Section II, of the Federal income tax law.

Name.....

Address.....

Date....., 191...

Whenever interest coupons, accompanied by a certificate of an individual who is a citizen or resident of the United States, as aforesaid, are presented to a debtor or its fiscal agent for payment, or whenever interest is payable to such individual on a bond registered as to both principal and interest, the debtor or its fiscal agents shall deduct and withhold the amount of the normal tax, except to the extent that exemption is claimed in the certificate of ownership in the form herein prescribed.

Where the interest to be paid is registered, the same form of certificate shall be used where exemptions are claimed, except that it shall be filed with the debtor at least five (5) days before the due date of such interest.

BY WHOM SIGNED.

These certificates must be signed by the claimants with their full name, and contain their post-office and street address, also the date when signed.

Duly authorized agents, trustees acting in a trust capacity, etc., may sign such certificates for the persons for whom they act.

ORGANIZATIONS WHOSE INTEREST COUPONS ARE NOT TAXED AT SOURCE.

If the owners of the bonds are corporations, joint-stock companies, associations, or insurance companies organized in the United States, no matter how created or organized, or organizations, associations, fraternities, etc., which are either taxable or exempt from taxation as provided in paragraph G, subdivision A of the act, the debtor is not required to withhold or deduct the tax upon income derived from interest on such bonds, provided

coupons or orders for interest from such bonds shall be accompanied by a certificate of the owners thereof certifying to such ownership, which certificates shall be filed with the debtor when such coupons or interest orders are presented for payment.

Such certificate shall be substantially in the following form:

CERTIFICATE TO BE FURNISHED BY ORGANIZATIONS NOT SUBJECT TO TAX ON INTEREST AT SOURCE.

I, ..., the .....
(Give name.) (Give official position.)

of the ..... a ..... of .....
(Name of organization.) (Character of organization.) (State.)

located at ..... do solemnly declare that said.....
(Post-office address.) (Give name of organization.)

is the owner of $..... bonds of the denomination of $.....

each, Nos. .....

.....

..... of the .....
(Give name of debtor.)

known as .....bonds,
(Describe particular issue of bonds.)

from which were detached the accompanying coupons, due ....., 191.., amounting to $....., or upon which there matured ....., 191.., $..... of registered interest, and that under the provisions of the income-tax law of October 3, 1913, said interest is exempt from the payment of taxes collectible at the source, which exemption is hereby claimed.

Name.....
(Official position.)

Of.....
(Name of organization.)

Date ..... 191... Address.....
(Post office.)

This certificate must be signed by the full name of the organization, stating its place of business, and by the president, secretary, or some other principal officer of the said corporation or organization duly authorized to sign same, together with the date of execution.

HOW COLLECTED WHEN NOT ACCOMPANIED BY THE CERTIFICATE OF OWNER.

Where coupons or interest orders are not accompanied by the ownership certificates, the form to be executed by the first bank, trust company, banking firm, individual, or collection agency receiving the same for collection or otherwise, which must accompany the coupons or interest orders, shall be substantially as follows:

FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS WHEN NOT ACCOMPANIED BY CERTIFICATE OF OWNERS.

I, ..., the .....
(Name.) (Official position.)

of the ....., of ..... do solemnly
(Bank or collecting agency.) (Address.)

declare that said ..... has (or have) purchased or
(Collecting agency.)

accepted for collection the accompanying coupons or interest orders amounting to $....., and which represent interest matured on

$..... of bonds of the ..... and that
(Name of debtor.)

.....received said coupons or orders for registered
(Collecting agency.)

interest from ..... of ....., and that
(Name of party from whom received.) (Address of said party.)

no certificate of ownership accompanied said coupons or interest orders, and ..... hereby acknowledges responsibility
(Collecting agency.)

of withholding therefrom the normal income tax of 1 per cent, in accordance with the regulations of the Treasury Department.

Name.....
(Collecting agency.)

By.....
(Signature of officer duly authorized to sign, and his official position.)

Address .....
(Give full address.)

Date..... 191...

This certificate shall be dated and signed by and shall state the address of the corporation, organization, collecting agency, or person withholding the tax, with full name and address.

FINAL DISPOSITION OF CERTIFICATES.

The debtor or paying agents shall deliver all certificates, with the list of names and addresses of those for whom the tax has been withheld, showing amounts, as required by law, to the *collector of internal revenue* for their district on or before the 20th day of the month succeeding that in which said certificates were received by them.

INTEREST DUE BEFORE MARCH 1, 1913.

The tax shall not be withheld on coupons or registered interest maturing and payable before March 1, 1913, although presented for payment at a later date.

LICENSE REQUIRED FOR COLLECTION OF INCOME FROM FOREIGN COUNTRIES.

All persons, firms, or corporations undertaking for accommodation or profit (this includes handling either by way of purchase or collection) the collection of coupons, checks, bills of exchange, etc., for or in payment of interest upon bonds issued in foreign countries and upon foreign mortgages or like obligations, and for any dividends upon stock or interest upon obligations of foreign corporations, associations, or insurance companies engaged in business in foreign countries, are required by law to obtain a license from the Commissioner of Internal Revenue and may be required to give bond in such amount and under such conditions as the Commissioner of Internal Revenue may prescribe.

BY WHOM TAX IS WITHHELD.

The licensed person, firm, or corporation first receiving any such foreign items for collection or otherwise shall withhold therefrom the normal tax of 1 per cent., and will be held responsible therefor. He (the licensee) shall thereupon indorse or stamp thereon the words "Income tax withheld by" (giving his or their name, address, and date), which shall be sufficient evidence to relieve subsequent holders or purchasers from the duty of also withholding the income tax.

If the size or nature of such coupons, checks, etc., makes it impracticable to make such indorsement as above, a statement identifying the item on which tax is withheld and bearing said indorsement may be attached thereto with the same effect as if the indorsement was made directly thereon.

LIST OF TAX COLLECTIONS ON FOREIGN ITEMS.

Such licensee shall obtain the names and addresses of the persons from whom such items are received, and shall prepare a list of same and file it with the collector of internal revenue for his district not later than the 20th of the month next succeeding the receipt of such items. The list shall be dated, and shall contain the names and addresses of the taxable persons and the amount of tax deducted, and from what source collected.

CERTIFICATES TO SECURE TAX EXEMPTION ON FOREIGN ITEMS.

In the event such coupons, checks, or bills of exchange above mentioned are presented for collection by an individual claiming the benefit of the deductions allowable under paragraph C, Sec-

tion II, of the Federal income-tax law, such individual shall be permitted to avail himself of the deduction claimed, upon signing on the form heretofore prescribed for coupons payable in the United States, and no tax shall be deducted for the amount of the exemption so claimed; or if such items are presented by corporations, joint-stock companies, or associations and insurance companies, organized in the United States, the form of certificate heretofore prescribed for such organizations shall be used, and in such instances no tax shall be deducted.

In both instances the licensee first receiving such items shall retain such certificates for delivery with the lists aforesaid to the collector of internal revenue for his district not later than the 20th of the month next succeeding that in which said items were received, and with respect to said coupons, checks, or bills of exchange, said licensee shall attach thereto (identifying the items) or indorse, or stamp thereon the words "Income tax exemption claimed through" (giving name and address of licensee), which shall be sufficient evidence to relieve subsequent holders or purchasers from the duty of also withholding the tax thereon.

The provisions for collection of the tax on foreign obligations set forth in this section of the regulations includes the interest upon all foreign bonds, even though the coupons may be at the option of the holder, payable in the United States as well as in some foreign country.

ACCURATE RECORDS TO BE KEPT BY LICENSEES.

All persons licensed shall keep their records in such a manner as to show from whom every such item has been received, and such records shall be open at all times to the inspection of internal-revenue officers.

PENALTY FOR OMISSION TO OBTAIN LICENSE.

Failure to obtain license or to *comply with regulations* is punishable by a *fine* nor exceeding $5,000, *or imprisonment* not exceeding *one year, or both*, in the discretion of the court. Such licenses shall continue in force until revoked.

Application for such licenses should be made to the collectors of internal revenue for the district in which they are engaged in business, and may be issued without cost to such persons as the commissioner may approve, upon their filing with the collector the bond herein provided for.

All persons in making application to the collector of internal revenue for such licenses shall register their names and addresses and state the nature of the business in which they are engaged.

Such application for the license, accompanied by a proper surety bond, when both have been approved by the collector, will be considered a sufficient compliance with the law to enable the persons making application to do business until February 1, 1914, without incurring the penalties provided by law for failure to procure the required license.

PENALTY FOR FALSE STATEMENTS.

If any person, for the purpose of obtaining any allowance or reduction, by virtue of a claim for exemption, either for himself or for any other, knowingly makes a false statement or false or fraudulent representation, he is liable under the act to severe penalties.

PARTNERSHIPS.

Where coupons or interest orders, presented for payment, represent the interest on bonds, or other similar obligations, owned by a partnership, they shall be accompanied by a certificate of ownership, which shall be signed either in the firm's name by one member of the firm or by each individual member of the partnership, and the normal tax shall be withheld by the debtor with respect to the income represented by said interest.

Said certificate of ownership shall be in substantially the following form:

FORM OF CERTIFICATE TO BE FILLED OUT AND SIGNED BY MEMBERS OF PARTNERSHIPS.

The following certificate should be used when coupons or interest orders are presented by citizens or residents of the United States for collection of interest on bonds, or other similar obligations, owned by the partnerships of which they are members:

I, ..., a member of the firm or partnership of ..... of ..... and residing at ....., do solemnly declare that the said partnership
(Give full address.)
is the owner of $..... bonds of the denomination of $..... each, Nos. .....
.....
of the .....
(Give name of debtor.)
known as ..... bonds, from which were
(Describe the particular issue of bonds.)
detached the accompanying interest coupons, due ..... 191..,

amounting to $....., or upon which there matured .....

191.., $..... of registered interest, and that the name and address of said firm or partnership, and the names of the individual members thereof, and their places of residence, are as follows:

Names of partners:	Address:
.....	.....
.....	.....
.....	.....
.....	.....

Name of partner signing:.....

Of firm of: .....

Address: .....

Date, ... 191...

Any member of a partnership, who is entitled to a deduction (under Paragraph C, Section II, of the Income Tax Law) of his pro rata share of the tax which may be withheld at the source on interest on bonds owned by his copartnership, as above, may claim such deduction or allowance when he shall make his individual income tax return for the year in which said deduction at the source was made.

NONRESIDENT FOREIGNERS OWNING INTEREST-BEARING BONDS NOT SUBJECT TO TAXATION ON INCOME FROM SUCH BONDS IF PROPER CERTIFICATE FURNISHED.

This tax will not be deducted from the income which may be derived from interest on bonds, mortgages, equipment trusts, receivers' certificates, or other similar obligations of which the bona fide owners are citizens of foreign countries residing in foreign countries: *Provided*, That such interest coupons, or in case of wholly registered bonds, the orders for the payment of such interest, shall be accompanied by duly certified certificates hereinafter provided for to cover the cases of foreign and nonresident owners of bonds and other securities.

Unless such proof of foreign ownership is duly furnished, the normal tax of 1 per cent. shall be deducted as herein provided.

Such certificate shall be in substantially the following form:

FORM OF CERTIFICATE TO BE PRESENTED WITH COUPONS OR INTEREST ORDERS, DETACHED FROM BONDS OR OTHER OBLIGATIONS OWNED BY THOSE WHO ARE BOTH CITIZENS OR SUBJECTS, AND RESIDENTS OF FOREIGN COUNTRIES.

I do solemnly declare that I am not a citizen or resident of the United States of America, but a subject (or citizen) of .....,

and that I am the owner of $..... bonds of the denominations of

$..... each, Nos. .....

.....

of the ..... known as
(Give name of debtor corporation.)

..... bonds,
(Describe the particular issue of bonds.)

from which were detached the accompanying coupons, due .....,

191.., amounting to $....., or upon which there matured.....,

191.., $....., of registered interest, and that being a nonresident foreigner, I am exempt from the income tax imposed on such interest by the United States Government under the law enacted October 3, 1913, and that no citizen of the United States wherever residing, or foreigner residing in the United States, or any of its possessions, has any interest in said bonds, coupons, or interest.

Signature of owner of bonds.....
(Give full name.)

Address.....
(Give full post-office address.)

Date....., 191...

TEMPORARY PROVISION.

In view of the fact that the time required for the interpretation of the law and preparation and issuance of these regulations brings the date so near November 1, and that many coupons payable upon that date are already in transit, without the prescribed certificates attached, with a desire to cause as small an amount of inconvenience as possible to bondholders and general business as may be compatible with the provisions of the law and of these regulations, the following temporary provision is made:

On November 1, 1913, and for 15 days thereafter, coupons presented to a debtor need not be accompanied by certificates in any of the forms hereinbefore described, provided that such coupons are accompanied by a certificate substantially in the following form:

FORM OF TEMPORARY CERTIFICATES WHICH MAY BE USED ONLY PRIOR TO NOVEMBER 16, 1913, SUBJECT TO SUBSTITUTION.

I (we) hereby certify that I am (we are) lawfully entitled to present for payment the accompanying coupons or interest orders amounting to $..... (giving amount) representing interest matured on the following bonds ..... (giving name of debtor and designating the description, style, and numbers of the bonds); that said coupon or interest orders came into my (our) possession unaccompanied by a certificate of ownership of said bonds, in any of the forms required by the regulations of the United States Treasury Department, and that the name and address of the owner of such bonds are as follows: ..... (give name and address of owner; if impossible to do this, so state).

Name of person, firm, or corporation presenting coupons:

.....

Address.....

On or before February 1, 1914, certificates of the ownership of any of the bonds upon which was collected the interest referred to in such temporary certificates, in any of the forms above set forth, may be delivered to the debtor; and said debtor may thereupon return any sum withheld to which the owner of such bonds may be entitled under the law and regulations upon the facts disclosed by such ownership certificates. Any temporary certificates relating to bonds, for which certificates of ownership shall not have been substituted with the Debtor, shall, on or before March 1, 1914, be delivered to the collector of internal revenue.

All forms of certificates herein provided for shall be 8 inches wide and 3½ inches from top to bottom, and printed on paper corresponding in weight and texture to glazed bond paper 17 by 28, about 26 pounds to the ream of 500 sheets, or white writing paper 21 by 32, about 32 pounds to the ream of 500 sheets, and the person or corporation first receiving coupons or interest orders for collection shall write or stamp his or its name and address and date on the back of said certificates.

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved, October 25, 1913.
W. G. MCADOO,
Secretary of the Treasury.

TREASURY DEPARTMENT,

OFFICE OF COMMISSIONER OF INTERNAL REVENUE,

WASHINGTON.

REGULATIONS

(Part 2)

REGARDING THE DEDUCTION OF THE INCOME TAX AT THE SOURCE ON INCOME **OTHER THAN** INTEREST MATURING ON BONDS, NOTES, AND OTHER SIMILAR OBLIGATIONS OF CORPORATIONS, JOINT-STOCK COMPANIES OR ASSOCIATIONS, AND INSURANCE COMPANIES.

Under the Provisions of Section 2 of the Federal Income-Tax Law of October 3, 1913.

The "source" in these regulations shall be construed as referring to the place where the income originates.

BY WHOM THE NORMAL TAX SHALL BE DEDUCTED AND WITHHELD.

All persons, firms, etc., mentioned in paragraph E of this law, hereinafter referred to either as "Debtors" or "withholding agents," namely:

> Copartnerships, companies, corporations, joint-stock companies, or associations, insurance companies, in whatever capacity acting, including lessees, mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers and all officers and employees of the United States having the control, receipt, custody, disposal, or payment of interest (except income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations upon which the normal tax of 1 per cent. has otherwise been withheld at the source, as provided by these regulations), rents, salaries, wages, royalties, taxable annuities, emoluments, or other fixed or determinable gains, profits, and income of another person, exceeding $3,000 for any taxable year, except as hereinafter provided,

shall deduct and withhold from such annual gains, profits, and income such sum as will be sufficient to pay the normal tax of 1 per cent imposed thereon by section 2 of this act, and shall make lawful return and pay the taxes so withheld to the collector of internal revenue for the district in which said withholding agent resides or has his, her, or its principal place of business.

The normal tax of 1 per cent. shall be thus withheld from all

income derived from fixed annual periodical rent of realty or personalty, interest (except as herein otherwise provided), salaries, royalties, taxable annuities, and other fixed annual periodical income exceeding $3,000.

ITEMS UPON WHICH TAX IS NOT TO BE WITHHELD AT THE SOURCE.

(1) Dividends on capital stock, or from the net earnings of corporations and joint-stock companies or associations and insurance companies subject to like tax, when said withholding agents are required to make and render a return in behalf of another, as provided herein, to the collector of his, her, or its district.

(2) Proceeds of life insurance policies paid upon the death of the person insured, or payments made by or credited to the insured, on life insurance, endowment, or annuity contracts, upon the return thereof to the insured at the maturity of the term mentioned in the contract, or upon the surrender of contract—all of which shall not be included as income under this law—but this shall not be construed to exempt said insurance companies from withholding and paying the normal tax of 1 per cent on interest income paid by insurance companies to beneficiaries of policies when said interest exceeds $3,000.

(3) Income of an individual which is *not* fixed or certain, and payable at stated periods, or is indefinite or irregular as to amount or time of accrual, shall not be withheld at the source, but shall be returned, and the tax shall be paid thereon by the individual.

> Income derived from the following professions and vocations come under this head: Farmers, merchants, agents compensated on the commission basis, lawyers, doctors, authors, inventors, and other professional persons.
>
> Such persons shall make personal return of all their income, provided their total income from all sources exceeds $3,000. For example: When a lawyer receives a retainer of $5,000 as a special fee, a deduction therefrom shall not be made by the payer, but when a lawyer receives a retainer of $5,000 *per annum*, and the exemption claimed is $3,000, $2,000 of such income would be taxed and the tax retained at the source, or if his exemption claimed should be $4,000, $1,000 of such income would be taxed and the tax thereon withheld at the source.

(4) The value of property acquired by gift, bequest, devise, or descent.

(5) Interest upon the obligations of a State or any political subdivision thereof, and upon the obligations of the United States or its possessions; also the compensation of the present President of the United States during the term for which he has been

elected, and of the judges of the Supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State or any political subdivision thereof paid by a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

This exempts from the income tax all salaries paid to an individual by a State or any political subdivision thereof, including the salaries of State, county, and municipal officers, the salaries of public-school teachers, and special compensation paid by States or subdivisions thereof for professional services, whether in the shape of salaries or special fees.

NORMAL TAX ON THE SAME INCOME IS TO BE HELD BUT ONCE.

The normal tax of 1 per cent shall be deducted and withheld *at the source*, and payment made to the Collector of Internal Revenue as provided in the law, by the Debtor or his, her, or its duly appointed agent authorized to make such deduction and payment.

No other person, firm, or organization, in whatever capacity acting, having the receipt, custody, or disposal of any income, as herein provided, shall be required to again deduct and withhold the normal tax of 1 per cent thereon: *Provided*, That any person, firm, or organization in whatever capacity acting, other than the Debtor who has withheld said tax, shall file with the Collector of Internal Revenue for his, her, or its district, a certificate in substantially the following form:

Form of certificate to be filed by persons, firms, or organizations required to withhold and pay said tax other than the Debtor at the source.

To: ....., *Collector of Internal Revenue,*
(Name of collector of internal revenue.)

.....
(Give address and designate district.)

I, ..., ...
(Name.) (Official title, if any.)

of the ....., ...
(Person, firm or organization.) (Capacity in which acting.)

of ....., do solemnly swear that I (we)
(Postoffice address.)

received of ..... $....., same being
(Name from whom received.)

income derived from .....
(State source, whether rents, salary, or other sources.)

belonging to ....., ...
(Give name of person to whom income is due.) (Address.)

and that the tax thereon amounting to $....., to which said person is subject, has been withheld at the source of said income by

....., ...
(Name of person withholding.) (Postoffice address.)

(Signed) .....

Address .....
(Street and number.)

.....
(City and State.)

Date. ....., 191.....

EXEMPTIONS WHICH MAY BE CLAIMED BY INDIVIDUALS.

Any person subject to the normal tax of 1 per cent, the amount of which is withheld or is to be withheld at the source, wishing to avail himself or herself of the exemption provided in paragraph C, section 2, of this act ($3,000 or $4,000, as the case may be) must file with the withholding agent, not later than 30 days prior to the day on which the return on his income is due, a notice in the following form:

Form for claiming exemption at the source as provided in paragraph C, section 2, of the Federal income-tax law of October 3, 1913.

To .....
(Give name of withholding agent.)

.....
(Postoffice address.)

I hereby serve you with notice that I ..... am *single—married and living with my wife—husband,* and now claim the
(Strike out so as to show status correctly.)

benefit of the exemption of $....., as allowed in paragraphs C and D of section 2 of the Federal income-tax law of October 3, 1913 (my total exemption under said paragraphs being $.....).

Signed: .....,

Address: .....,
(Street and number.)

.....
(City and State.)

Date: ....., 191....

BY WHOM EXEMPTIONS UNDER PARAGRAPH C, SECTION 2, OF THIS ACT, MAY BE CLAIMED.

Every single person, or every married person not living with wife or husband, who is liable for the normal income tax under this law may claim a total deduction of $3,000 from net income, on which deduction he or she is exempt from said normal tax of 1 per cent.

Where a husband and wife live together and only one of them has an annual income liable for the normal tax of 1 per cent,

then the husband or wife who has the income shall make return and pay the said tax and may claim and deduct an exemption of $4,000.

But if a husband and wife live together and each has an annual income liable for the normal tax of 1 per cent, then in that event they shall make a separate return, and the $4,000 exemption allowed to a husband and wife when living together may be claimed and deducted by *either* the husband or wife, as they may mutually agree (but not by both separately), or the said exemption shall be *prorated* between them in proportion to their net income.

AMOUNT OF EXEMPTION ALLOWABLE FOR 1913 UNDER PARAGRAPH C, SECTION 2, OF THE FEDERAL INCOME-TAX LAW.

For the present year of 1913 (from March 1 to December 31) exemptions allowed under paragraph C of this law will be five-sixths of those of the calendar year, as specified in paragraph D, namely, $2,500 if the exemption is $3,000, or $3,333.33 if the exemption is $4,000, as the case may be.

WHEN AND ON WHAT AMOUNT THE NORMAL TAX OF 1 PER CENT SHALL BE WITHHELD.

A withholding agent who pays monthly or periodically during the year interest (except income derived from interest upon bonds and mortgages, or deeds of trust, or other similar obligations of corporations, etc., upon which the normal tax of 1 per cent has been withheld at the source, as provided by regulations), rents, salaries, wages, etc., shall not withhold the said tax until such time as the rents, salaries, wages, etc., shall have reached an aggregate amount in excess of $3,000. When such an amount has been reached, he, she, or it shall withhold the tax on the whole $3,000 and excess thereof, *unless* the person to whom the income is due files with him, her, or it the notice above provided, claiming exemption under paragraph C of section 2 of this act, in which case the withholding agent shall withhold only the tax on the income in excess of said exemption of $3,000 or $4,000 (as the case may be), and the tax so withheld shall be returned and paid as required by law.

DEDUCTIONS TO BE MADE IN COMPUTING NET INCOME.

Any person subject to the normal income tax of 1 per cent, a part of whose income is withheld or is to be withheld at the source, who may wish to avail himself of the deductions author-

ized in subsection B, section 2, of this act, may file either with the Collector of Internal Revenue for the district in which return is made for him, or with the withholding agent, not later than 30 days prior to March 1, a return and notice in substantially the following form:

Form No. .....

UNITED STATES INTERNAL REVENUE

Return making application for deductions, as provided by paragraphs B and E, section 2 of the Federal income-tax law of October 3, 1913.

To .....
(Name of withholding agent.)

.....
(Street and number.)

.....
(Town or city.) (State.)

I hereby solemnly declare that the following is a true and correct return of my gains, profits, and income from all other sources for the calendar year ended December 31, 191— (from March 1 to December 31 for the year 1913), and a true and correct return of deductions asked for under paragraph B of section 2 of the act of October 3, 1913, and I hereby claim deductions as shown below.

Amount of gains, profits, interests, rents, royalties, profits from co-partnerships, and income from all other sources whatsoever ..... $.....

DEDUCTIONS.

1. The amount of necessary expenses actually paid in carrying on business, except business expenses of partnerships, and not including personal, living, or family expenses $.....
2. All interest paid within the year on personal indebtedness of taxpayers ..... $.....
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits) ..... $.....
4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck and not compensated for by insurance or otherwise ..... $.....
5. Debts due, which have been actually ascertained to be worthless and charged off within the year ..... $.....
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed in the case of mines 5 per cent of the gross value of the output for the year for which the computation is made, but not including the expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made..... $.....

7. The amount received as dividends upon the stock or from the net earnings of any corporation, joint-stock company, association, or insurance company which is taxable upon its net income ..... $.....
8. The amount of income, the tax upon which has been paid or withheld for payment at the source of income ..... $.....

$.....

Total deductions..... $.....

Date....., 191.... (Signed).....

Address.....

.....

NOTE.—Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax returns under the income-tax law.

Money or other things of value, disposed of by gift, donation, or endowment, shall not be deducted or be made the basis for a deduction from the income of persons or corporations in their tax returns under the income-tax law.

AMOUNT OF DEDUCTION ALLOWABLE FOR 1913 ACCORDING TO PARAGRAPHS B AND D OF SECTION 2 OF THIS ACT.

For the present year of 1913 (from March 1 to December 31) the deductions allowed under paragraph B shall be five-sixths of the deductions allowable for a calendar year, as specified in paragraph D of this law.

AMOUNT OF TAX TO BE WITHHELD FOR 1913, AND WHEN WITHHELD.

The withholding agent is not required to deduct and withhold prior to November 1, 1913, the normal tax of 1 per cent. for which an individual is liable.

Whenever the total amount of income paid to any person by a withholding agent *after* October 31, 1913, shall be in excess of $3,000, then, in that event, the withholding agent shall be liable for and shall deduct and withhold the tax on such amount, unless such person shall file a claim for an exemption as allowed in paragraph D of this act, the amount of exemption allowable being $2,500 if the annual exemption is $3,000, or $3,333.33 if the annual exemption is $4,000, as the case may be.

PERSONS PHYSICALLY UNABLE TO MAKE RETURNS.

If a person subject to said tax part of whose income is withheld or is to be withheld, is a minor or insane person, or is absent from the United States, or unable to make the application or return because of serious illness, the application or return may be made by the withholding agent, who shall make the following oath under the penalties of this act:

Form of oath required of a withholding agent when acting for another in filing return and making application for deductions allowable under paragraph B, as provided in paragraph E, section 2, of the Federal income-tax law of October 3, 1913.

I hereby swear (or affirm) that I have sufficient knowledge of the affairs and property of ..... to enable me to
(Naming person and address for whom acting.)

make a full and complete return for ....., and that the
(Naming person.)

return of income and application for deductions made by me are true and accurate.

(Signed .....

Address.....
(Street and number.)

.....
(City and State.)

Date:....., 191....

Signed and sworn to before....., 191.....

.....

PENALTIES.

Subsection F of section 2 of the income-tax law provides *inter alia* as follows:

Any person or any officer of any corporation required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required to be made shall be guilty of a misdemeanor and shall be **fined** not exceeding **$2,000** or be **imprisoned** not exceeding **one year, or both,** in the discretion of the court, with the costs of prosecution.

W. H. OSBORN,
Commissioner of Internal Revenue.

Approved October 31, 1913.

W. G. MCADOO,
Secretary of the Treasury.

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